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ABSTRACT

There is increasing concern among child care providers and states as to whether the methodology and data collection mechanisms of the various market rate surveys used by each state accurately capture the rates charged by child care providers. This paper examines issues related to market rate surveys as the customary method of determining appropriate public costs for child care. Section 1 of the paper explains how each of seven critical issues can influence market rate survey results: (1) defining the child care market; (2) establishing boundaries of the child care market; (3) identifying the child care providers in the market; (4) considering the bias associated with data collection methods; (5) designing and implementing the market rate survey; (6) interpreting the market rate survey results; and (7) including special tiered or differential reimbursement rates. Where available, examples from states are provided to highlight the challenges faced in conducting a sound market rate survey. This section also includes critical questions for each issue that stakeholders should consider when developing market rate studies for the individual states. Section 2 presents a set of recommendations for further study. (KB)

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ED 441 610

Conducting Market Rate Surveys:

How Does Your State Rate?

March 2000

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Foreword

Determining the price of a product or service when there is significant public interest in it is not unique to the child care field. Automobile insurance rates and health care reimbursement rates have been highly regulated, and for many years have been set through methods that seek to strike a balance between quality and affordability, taking into consideration accountability, expenditure of public funds, profitability, and other public and private concerns.

A major goal of USA Child Care is to ensure that child care providers who serve low- and moderate-income families have adequate resources to provide quality services that enhance the development of the children in care. Understanding how states set reimbursement rates to providers who serve low-income families is essential to accomplishing this goal. Small errors can have profound impacts on the economic stability of the field and ultimately the success of early childhood education and welfare reform public policy.

Setting government reimbursement rates for child care is a public/private responsibility in its infancy. In July 1998, the U.S. Department of Health and Human Services issued new regulations for the Child Care and Development Fund (CCDF). These regulations included a requirement that states "conduct local market rate surveys no earlier than two years prior to the effective date of their current CCDF plan." [1]

Advocates and providers of child care services have an important role to play as states develop their plans to conduct market rate surveys. This report was prepared for child care providers, state administrators, legislators and policy makers to help them understand the critical issues as states prepare to complete market rate surveys and implement the results.

In the last half of 1998, USA Child Care engaged Susan Yang, a graduate student at the Kennedy School of Government at Harvard

1. Department of Health and Human Services, Administration for Children and Families, 45 CFR Parts 98 and 99, Child Care and Development Fund; Final Rule; page 39988, Section 98.43 (c).

University to collect data from the 50 states and the District of Columbia about the methods they used to determine the rates of reimbursement for child care services. This report was developed from the information she collected. In addition, *U.S. Department of Health and Human Services Child Care Development Block Grants: A Report of State Plans* informed this document relative to the current status of market rate surveys across the states.

This paper examines issues related to market rate surveys as the method of determining appropriate public costs for child care. It is intended to complement earlier work by Louise Stoney in *Promoting Access to Quality Child Care: Critical Steps in Conducting Market Rate Surveys and Establishing Rate Policies* (Children's Defense Fund, 1994). Readers are encouraged to obtain a copy of Stoney's paper to broaden their understanding of the issues discussed in this document.

USA Child Care wishes to thank the state child care agencies and individuals who responded to requests for information. USA Child Care also thanks Susan Yang, MA, for the data collection and her work on this report. USA Child Care also wishes to acknowledge the A. L. Mailman Foundation for its generous and timely support of this project.

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Introduction

Little consistency exists in the methodology used to determine the child care reimbursement rates among the fifty states and the District of Columbia. Generally, a survey of all child care providers or a sample of child care providers is used to determine the "market rate" charged by child care providers in a given geographic area. Providers and states alike have concerns as to whether the methodology and data collection mechanisms of the various market rate surveys accurately capture the rates charged by child care providers.

While states may be reimbursed by the federal government when they pay up to the 100th percentile of the market rate for child care, a majority of states (34 states) set the child care reimbursement rate at or near the 75th percentile based upon the most recent market rate survey.[2] The 75th percentile is the rate at or below which at least 75% of the providers charge their clients.[3] Some states pay above the 75th percentile while others reimburse providers at rates well below the 75th percentile.[4]

USA Child Care has identified the following critical issues for child care stakeholders to consider when conducting a market rate survey:

- Determining how the child care market is defined
- Determining how boundaries for the child care market to be studied are established
- Identifying the child care providers in the market
- Considering biases associated with data collection methods
- Designing a survey instrument to ensure a statistically sound sample is taken
- Implementing the survey instrument to ensure valid and reliable results are obtained
- Interpreting the results
- Special rates to increase quality and supply

The paper is divided into two sections. Section I explains how each of the critical issues identified can impact market rate survey results. Where available, examples from states are provided to highlight the challenges faced in conducting a sound market rate survey. This section also includes critical questions for each issue that stakeholders should consider when developing market rate studies for their individual states.

Section II concludes with a set of recommendations for further study.

2. Adams, Gina, Schulman, Karen, and Ebb, Nancy. Locked Doors: State Struggling to Meet the Child Care Needs of Low-Income Working Families, Table A, p. 1-5.

3. Stoney, Louise. "Promoting Access to Quality Child Care: Critical Steps in Conducting Market Rate Surveys and Establishing Rate Policies", Children's Defense Fund: 1994.

4. Setting rates at or above the 75th percentile is one of the ways a state can assure the federal government that child care payment rates afford low-income families "equal access" to child care. It is important to note that the federal government does not set the 75th percentile as a limit on payment rates. A state is free to pay rates higher than the 75th percentile. However, a state may also use other means to justify to the federal government that rates lower than the 75th percentile assure families equal access to child care

Section 1: Critical Issues and Their Impact on Market Rate Studies

Defining the Child Care Market

A market is the collection of buyers (e.g., parents/guardians, companies, different levels of government) and sellers (e.g., child care and Head Start providers, public schools) that through their potential interaction determine the price of a product (child care) or set of products (full-day, part-day, part-week, etc.) Thus, the market rate is the "price" charged to parents by the sellers of child care.[5]

In a typical market there are many buyers and sellers so that no single buyer or seller has a significant impact on the price charged to parents. In free markets, private providers set their prices (rates) based on the actual cost of providing care, and what the market will bear.

In some geographic locations or with some types of specialized services (i.e., child care in low-income communities, or child care with comprehensive services), government is often the primary or sole purchaser. Governments have historically capped their rates (prices) at a predetermined ceiling that has not necessarily reflected the actual costs of care. Thus, there is no competitive market and providers are subject to the government (federal, state or local) determined rate.

Therefore, the mix of providers included in the market rate survey affects the survey's outcome. Market rate surveys of private providers reflect the prices (rates) that are determined based on prices charged. When the market rate survey includes providers who serve a significant proportion of subsidized families, the market rate often becomes artificially lowered.

Information gathered from Rhode Island and Oregon illustrate the potential impact of using all providers as opposed to using a subset of providers who are not bound by (state) government rates.

The Rhode Island survey found that the higher the percentage of subsidized children served, the lower the rates charged by providers. Rhode Island providers who served more than 75% state subsidized children reported the lowest rates in all categories (infant/toddler, preschool and kindergarten).[6]

Similarly, Oregon compared providers listed by the resource and referral agencies that did not offer subsidized care with those who did offer subsidized care. The researchers who conducted the Oregon market rate study concluded that the providers serving Adult and Family Services clients (the state agency) charge less than those serving the non-subsidized market.[7]

When government is in the position of controlling the market, as it is in many low-income communities, government must ensure that the rate established is a fair market rate that factors in all reasonable costs. Since actual costs of child care in low-income communities are often higher than the government rate, providers providing large amounts of subsidized care may use supplemental funding, such as private grants and fund raising, to help cover their costs. Market rate surveys must capture the total revenue used for pro-

5. Pindyck, Robert and Rubenfeld, Daniel. Microeconomics. Prentice Hall: 1995, 4th Edition, p.9.

6. Rhode Island Market Rate Study 1998.

7. Arthur Emlen & Associates, Inc. Market Rate 1994. Sampling the Price of Child Care in Oregon: A Report to the Adult and Family Services Division. Oregon Department of Human Resources (April 1995), pp.12-13.

viding care in order to reflect the market rate accurately. When government fails to identify true market rates, poor communities are most affected.

The state of Maryland has tried to address the effect of the subsidized providers on the market rate by combining the rates of the highest income communities with those of the lowest to determine the market rate. Rhode Island's market rate survey attempted to capture the value of other subsidies and cash assistance used by providers to offset the costs. The survey currently in process in Massachusetts eliminated all non-market-price care from the sample.

Critical Questions

- If states choose to survey all providers, has an effort been made to understand how the subsidized providers impact the reimbursement rates? Has the survey methodology provided a mechanism for adjusting for the artificial rates established through government subsidies?
- Does the survey provide a mechanism for capturing the percentage of providers who do and do not receive subsidies from the state either by contract or voucher system? Does the survey capture data regarding subsidized and unsubsidized care by providers who provide both types of care? Do state contracts or vouchers, which reimburse providers, have an impact on the reimbursement rate?
- Does the survey capture the number of providers above the 75th percentile of the market rate who offer subsidized child care?
- Does the survey capture the number of providers at or below the 75th percentile who do not offer subsidized care?

Establishing Boundaries of the Child Care Market

States define the geographic parameters of their market boundaries. Reimbursement rates are then established for each area. The following are a list of the boundaries generally used to set rates:

Geographic Boundaries:	Some State Examples:
State	Hawaii, New Hampshire, Vermont
County	California, Colorado, Indiana, Virginia
Districts	Arizona, Florida, Kansas
Region	Connecticut, Kentucky, Arkansas, Washington
Rural/Urban/Suburban	South Carolina, New Mexico, Tennessee
Zip Codes	Oregon
Zones/Areas	Alaska, Georgia, Texas

The number and mix of providers within a boundary have a significant impact on rates. For example, the state of Tennessee divided providers into rural and urban categories. However, providers in suburban areas made a case for the need for a new category, and the state added a third category to more accurately reflect the suburban market. This change resulted in a rate increase for the newly-defined suburban providers.

Critical Questions

- Is the proposed unit of analysis the best measure a state can use to understand the cost of doing business in each particular area?
- Does the boundary set by the state include a sufficient number of providers to determine what the true market rate is?
- How many subsidized and unsubsidized providers fall within each geographic boundary? Does this distribution contribute to the establishment of a fair and accurate market rate?
- What impact might a state's redefinition of geographic boundaries have on the reimbursement rates?

Identifying Child Care Providers in the Market

When preparing to collect information from the child care market, identifying a thorough list of child care providers is critical to determining an accurate market rate. An incomplete list will contribute to biases that will under- or over-estimate the true market rate.

States use different methods to identify child care providers for their market rate surveys. Some states utilize multiple lists to ensure that all providers are included in a survey. For example, Arizona compiles a survey list from existing lists provided by the Department of Economic Security, the Department of Health Services, the Arizona Department of Education's federal Child and Adult Food program, and information on unregulated providers from the Resource and Referral network.[8] Some states mail surveys to providers on the child care licensing agency's mailing list.

Identifying family child care providers poses particular challenges since many are not licensed. Throughout the country, there are many providers who are legally operating providers who are not required to be licensed. These are referred to as license-exempt providers. Since information on family child care providers is difficult to obtain, most states have established rates based on what they are willing to pay rather than based on what the market warrants.

In California, the state resource & referral network conducts the market rate survey. The R&R network's survey methodology is sound and response rates within the targeted sample areas are extremely high, however, the sample is drawn from the R & R network's list of roughly 36,000 providers. However, it has been estimated that there are 49,275 providers in California. Thus, the market rates set in California accurately capture the market rate of providers listed with the R & R's, but may not necessarily capture the market rate of all the licensed providers. Selecting sample size and shape can induce, minimize, or virtually prevent bias.

Critical Questions

- Who in the state has the best available information on active child care providers?
- How can surveyors ensure that all providers are included in the market rate survey?
- Will exempt providers be included in the survey, and if so, how will they be identified? What is the incentive for exempt providers to participate in surveys?

8. Maricopa County Office of Research & Reporting. Child Care Market Rate Survey 1996. August 1996. p.3.

Considering the Bias Associated with Data Collection Methods

States may conduct market rate surveys themselves or contract with an outside party such as a research institute, university or resource and referral agency. Some states use a combination of methods. The advantages and disadvantages of various options are described below.

Agency Conducting Survey:	Some State Examples:
In House Survey	Illinois, Nebraska
Research Organization/Universities	New Jersey, Kansas, Rhode Island
Child Care Resource & Referral Agencies	Kentucky, Oregon, Maine
Combination	California, Washington

In-House Survey

Lead child care agencies in the states generally have knowledge about the child care delivery system and good access to information regarding who is in the child care market and which providers serve predominantly subsidized or unsubsidized children.

On the other hand, many state agencies lack the necessary staffing to conduct a market rate survey internally, thus delaying the collection and tabulation of data. In addition, some providers may be less inclined to respond to a state agency than to an independent contractor.

Contracting with Research Organizations and Universities

In some cases, universities and research institutions represent neutral parties, which may lead to higher provider response rates. A university/research organization may also have better resources for survey design and data collection and analysis.

Research organizations/universities may lack the necessary understanding of the child care industry to develop appropriate questions which capture accurate information on rates. To mitigate this potential lack of technical expertise, research organizations should partner with or hire consultants with knowledge of the child care industry.

Contracting with the Resource and Referral Agency

Resource and Referral agencies (R&Rs) present a potentially less costly option for collecting information on market rates. In general R&Rs maintain databases on child care providers within a state or geographic area and often collect rate information on a regular basis. R&R's also tend to have more knowledge than an outside agency regarding the child care delivery system in their community. R&R's may be subject to similar staffing constraints faced by lead agencies

Critical Questions

- Is the surveyor neutral or are there certain biases associated with the surveyor that might lead fewer providers to respond?
- Does the surveyor have sufficient technical expertise to conduct a methodologically sound market rate survey?

- Does the surveyor have sufficient staff to process the survey results in a timely manner?
- Does the surveyor have adequate knowledge of the child care industry or a plan for accommodating for lack of knowledge in particular areas?
- Is the surveyor willing to work with the state agency and child care providers to insure that the survey instrument and process will lead to thorough and reliable findings?
- Does the surveyor have the capacity to survey the universe of providers, including providers whose first language is not English?
- Does the surveyor have access to comprehensive lists of child care providers?
- Does the list of providers to be surveyed include providers who are regularly and actively seeking business? If not, does the surveyor have a mechanism for capturing data from other sources?
- If more than one agency is used to conduct the surveys in a state (for example R&Rs, will they implement the survey instrument in the same way? Will they use similar technology so that rate information may be easily compared?

Designing and Implementing the Market Rate Survey

To ensure that appropriate rates of reimbursement are set, each state must ensure that its study is reliable and valid. The survey must be carefully designed and implemented to ensure that quality data is obtained from an appropriate sample of providers.

Reliability of the survey means that providers answer questions consistently when asked multiple times by various researchers or by different questions within one survey. For example, if providers are asked questions about how much they charge parents for full-time care, and "full-time" is not defined as a specific number of hours, providers may answer the questions differently based on their interpretation of the term "full-time" within each question. Thus, the data collected is unreliable.

Both internal and external *validity* of data are also necessary. Internal validity indicates that the results from a provider sample accurately measure the actual market rate for those providers. Essentially, is the survey measuring what it intended to measure about providers' child care rates? External validity suggests that the results from the sample of providers can be utilized to generalize about the market rates for the overall population of providers. The pool of respondents must also be sufficient to ensure that the results are meaningful. Statisticians can assist in determining minimum sufficient response rates or sample sizes.

States use different systems for collecting market rate data. A majority of states mail surveys and follow-up with providers by telephone. Research of state response rates indicates that telephone surveys generate a higher response rate than mail-in surveys. Most states attempt to survey all providers or a representative sample of providers.

Critical Questions

- Have field tests of the survey been conducted to ensure that the surveys are worded using the proper nuances of the child care provider population?
- Are the questions on the survey worded so that child care providers consistently respond in the same way?
- Should the state consider using different survey instruments for different provider populations? (e.g. school age providers, family child care, group homes, and child care centers?)

- Does the market rate survey instrument measure what the state intends to measure?
- Can the survey results be used to generalize about the market rates for the overall population of providers?
- Is the method of data collection likely to maximize the survey response rates?
- What is the best time of year to conduct the market rate survey?
- What percentage response rate will assure reliable and valid data?
- Is the length of the survey instrument likely to impact the response rates?
- What resources (financial, staffing, development of survey instrument, knowledge of child care) are available to collect the data?

Interpreting the Market Rate Survey Results

Once a reliable and valid survey instrument has been used and data collection carefully implemented, the next step is to analyze the market rate survey results. One key aspect to consider is how the response rate affects data analysis.

The reports and data from a quarter of the states indicate that the response rates to the surveys have generally been under 50% or not given. Since the 75th percentile is a number generated from ranking providers' rates from high to low, survey response rates significantly impact where the 75th percentile falls. Thus, the low response rates raise questions as to whether resulting rates reflect the true 75th percentile.

With less that 100% response rates in the survey, the 75th percentile is likely to overestimate or underestimate the actual reimbursement rate depending on who has responded to the survey:

- If those who responded to the survey are predominately private child care centers or child cares homes in higher income communities, the 75th percentile set by the state from the survey results is likely to overestimate the true market rate.
- Conversely, if those who responded are predominately providers who serve low- or moderate-income families, the 75th percentile set by the state from the survey results is likely to underestimate the true market rate.

Exhibit 1 is an illustration of how the survey response rate might impact the 75th percentile where weekly rates are generally set by states. In this example, if 50% of the providers respond to the survey, the resulting reimbursement rate is as low as $150 and as high as $190. This 27% difference can have significant fiscal implications for states and for providers and dramatically affect the quality of programs delivered. Response rates are likely to impact most significantly on the rates if the ranges between the highest and lowest providers are wide.

Exhibit #1

Number of Providers		All Providers Respond	High End Half Respond	Low End Half Respond
1	high end	$200	$200	
2		$195	$195	
3		$190	**$190** (75th Percentile)	
4		$185	$185	
5		**$180** (75th Percentile)	$180	
6		$175	$185	
7		$170	$170	
8		$165	$165	
9	low end	$160		$160
10		$155		$155
11		$150		**$150** (75th Percentile)
12		$145		$145
13		$140		$140
14		$135		$135
15		$130		$130
16		$125		$125

Critical Questions

- Have enough providers responded to the market rate within each geographic area to provide reliable and valid data about the price of child care?
- If an insufficient number or a non-representative group of providers have responded, are the reimbursement rates likely to underestimate or overestimate the actual rates?
- Why are providers not responding? Is it the survey instrument? Is it that providers do not understand the significance of the market rate survey? Is it the survey method used?
- What steps can be taken to ensure high response rates?
- How wide are the ranges between the highest and lowest provider rates?

Including Special Tiered or Differential Reimbursement Rates

In analyzing rates, it is also important to consider that many states establish different rates for different provider types, for providers who meet higher quality standards, and/or for providers offering particular kinds of care. Providers who do not meet the state's minimum standards (i.e. license-exempt providers, informal child care providers) generally receive significantly lower rates. Some state administrators reported that this is done as an encouragement for these providers to meet the requisite state standards.

These differential rates are not market rates, but rather reimbursements established by the states which are designed to reward desired characteristics of care. States may or may not express these special rates as some percentile of the market

In many states, certain services account for special rates:

- In-home care—generally a family member or friend that does not have a license (often referred to as Kith and Kin Care')
- License-exempt programs
- Children in protective services
- Child care for teen parents
- Children with special needs
- Non-standard hour care/extended hour care/ weekend care
- Quality standards

In some states (Mississippi, New Mexico, North Carolina, Oklahoma), providers who meet higher standards (e.g., meeting National Association for the Education of Young Children Accreditation standards) receive quality bonuses. These bonuses are given in a variety of ways (e.g., per child, per month or as a percentage on top of the maximum state reimbursement rates). Vermont offers an additional 15% above the ceiling for NAEYC accredited programs. Mississippi divides its reimbursement rates into three tiers: the highest tier being a program with NAEYC accreditation, and the lowest tier requiring only that a provider register with the Office for Children and Youth. Some states also offered different rates for extended- or odd-hour care. For example, West Virginia and Kansas offered $1.00 a day above the ceiling for odd-hour care.

Critical Questions

- What are the implications for market rates, quality of care and availability of care, of offering quality bonuses? How much should states offer to compensate for higher quality?
- How does the investment in higher rates related to quality impact the number of subsidized children receiving care?
- What additional incentives could states offer to improve the quality of care available to families? Which incentives make the greatest difference in improving quality?
- What financial and other incentives are necessary for states to increase the number of providers who offer specialized care (e.g. odd hour care)?

- Which criteria for rate-setting would ensure that adequate, quality child care for special needs children is available?
- Do rate differentials encourage unregulated providers to obtain a license? If so, what is the point of differentiation?

For further information on differential rates within the states, please see "Overview of States with Differential Reimbursement, December 1999" by Sheri L. Azer, published by the Center for Career Development in Early Care and Education.

Section 2: **Conclusions and Recommendations**

USA Child Care acknowledges that conducting statistically valid and reliable market rate surveys addresses only one part of a complex set of problems facing the child care market. However, conducting a reliable market survey is a fundamental step towards identifying and understanding issues and hence devising solutions that improve the quality and availability of care. This report provides an initial foundation for understanding current state practices for conducting market rate surveys and for identifying critical issues involved in conducting a methodologically sound market rate survey that accurately captures the entire child care market.

Child care providers know best what it costs to deliver services. They must be included in the dialogue to ensure that market rate surveys accurately and systematically compare costs and key aspects of service delivery. Providers require assistance to meaningfully and accurately present their costs and services on a market rate survey. The collective investment of providers, government agencies, researchers, resource and referral agencies, advocates and academia will ensure that state reimbursement rates reflect the results of a meaningful market rate survey and that sound policy decisions result.

To this end, USA Child Care recommends that further steps be taken to:

- Develop a set of standards and a rating tool against which the quality of each state's market rate survey methodology and results can be evaluated.
- Convene a gathering of individuals who have been responsible for conducting state market rate surveys to capture in greater detail the practical lessons learned, refinements made, and challenges remaining.
- Conduct an in-depth analysis of state market rate survey methodologies and reporting procedures with an eye to best practices.
- Design a set of models for state market rate survey instruments.
- Develop mechanisms for assisting subsidized (and nonsubsidized) child care providers in determining their actual costs.
- Involve child care providers in the design and development of a curriculum and set of training materials that can be used to assist them in accurately reflecting their costs and prices when responding to state market rate surveys. With increasingly collaborative programming and funding, several revenue streams may make up the cost/price of a day of child care. Accounting for all sources and uses and calculating a resulting rate will become more important in the next several years.
- Investigate and describe the methods by which states determine reasonable costs/ prices of delivering child care as a supplemental means to determine the relationship between the state rates and the cost of providing care (i.e. by creating sample budgets that reflect the regulatory and contractual conditions within a given state.) This work should build on the Cost of Quality study and subsequent related research.

- Gather and analyze information and relevant data to study the specific influence of the state (as a purchaser of child care services) on the entire child care market - with a particular focus on geographic areas where government subsidized children represent the preponderance of the market or where the government is the sole purchaser of certain services.
- Gather baseline data that illuminates the relationship between government rates of reimbursement and the market rate in each of the 50 states. This data should be kept current not less than annually in order to assist states and providers with their plans for market rate surveys and to provide the Federal Government and other stakeholders with outcome data resulting from policies directed to the cost and quality of care.
- Examine ways that current longitudinal studies on the quality of child care can be used to elicit knowledge of the impact of state reimbursement rates and other government investments on the quality of child care in the states.

United States Association for Child Care
3606 NE Basswood Drive
Lee's Summit, MO 64064

Phone: 1-800-484-9392 (PIN #1891)
Fax: 816-373-5914

Email: usacc@usachildcare.org